

To The Shareholders

Consolidated net earnings in the second quarter amounted to \$337,005, or 42¢ per common share, compared to \$352,331, or 44¢ per common share, in the corresponding quarter of last year.

For the first six months of 1971, consolidated net sales were \$21,373,438 — an increase of 1.5% over the first half of 1970. Net earnings amounted to \$848,200, or \$1.06 per share, in the first half of 1971, equal to the \$1.06 per share earned in the corresponding period of 1970.

On July 2nd the company issued \$12 million of Series "A" Sinking Fund Debentures due in 1991, bearing an interest rate of 8¼%. After deducting the underwriting, legal and other costs of the issue, the net proceeds will be applied against long and short term bank loans.

Early in the second quarter, BABYSCOTT Diapers were introduced into the large Ontario market. Samples of this new product were extensively tested with Canadian consumers prior to the installation of manufacturing machinery at Crabtree, Quebec, now in full production. To date both the trade and consumer purchase rates of BABYSCOTT Diaper products in Ontario have been most favourable.

The development and introductory costs of a new product of this type are charged against current earnings and will continue to be so charged for the remainder of 1971.

For the last half of the year the present outlook is for slower-than-normal sales growth on established products and continuing heavy cost increases. These two factors, associated with the current economic situation, when combined with our new product introductory expenses, will make the achievement of increases in earnings per share a difficult challenge in the third and fourth quarters, in spite of the removal, effective July 1st, of the income surtax.


A.F. ARMSTRONG
President

New Westminster, B.C.
July 26, 1971

SCOTT PAPER LIMITED

STATEMENT OF OPERATIONS For The First Six Months of 1971

SCOTT PAPER LIMITED

CONSOLIDATED STATEMENT OF INCOME FOR THE FIRST SIX MONTHS OF 1971 (With corresponding amounts for 1970)

	First Six Months 1971	First Six Months 1970
Sales, less discounts and allowances	<u>\$21,373,438</u>	<u>\$21,055,303</u>
Expenses (Note 1):		
Cost of products sold	14,366,782	14,097,093
Marketing, general, administrative and development expenses	<u>5,312,441</u>	<u>5,197,310</u>
	19,679,223	19,294,403
Income before taxes	1,694,215	1,760,900
Provision for taxes on income	<u>846,015</u>	<u>913,107</u>
Income after taxes for the period	<u>\$ 848,200</u>	<u>\$ 847,793</u>
Income per share after taxes	\$1.06	\$1.06
Dividends paid per share45	.45
Number of common shares outstanding	800,000	800,000

Note (1) — Expenses include depreciation of \$853,954 (1970 — \$715,751)

Subject to audit and year end adjustment.

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL FOR THE SIX MONTHS ENDED JUNE 26, 1971

(With corresponding amounts for the six
months ended June 27, 1970)

	First Six Months 1971	First Six Months 1970
SOURCE:		
Income for the period	\$ 848,200	\$ 847,793
Add —		
Charges which did not involve an outlay of working capital —		
Depreciation (Note 1)	853,954	715,751
Deferred income taxes	200,000	—
Increase (decrease) long- term bank loan	(100,000)	2,300,000
	<u>1,802,154</u>	<u>3,863,544</u>
DISPOSITION:		
Net additions to fixed assets	1,464,725	3,053,902
Dividends	360,000	360,000
Net increase miscel- laneous amounts	13,233	373
	<u>1,837,958</u>	<u>3,414,275</u>
Increase (decrease) in working capital during the period	(35,804)	449,269
Add —		
Working capital at beginning of the year	1,090,812	1,908,880
Working capital at end of the period	<u>\$1,055,008</u>	<u>\$2,358,149</u>